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Royal Canadian Ventures Ltd.

ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 1967



ROYAL CANADIAN VENTURES LTD.

Report of the Directors

TO THE SHAREHOLDERS

The annual report and financial statements of the Company for the year ended September 30, 1967 are presented herewith.

CORPORATE AFFAIRS

Arising out of the consolidation in 1966 of offices and staffs of all companies included in the chart accompanying this report whereon is indicated share ownership, interlocking directorate, etc., Royal Canadian Ventures Ltd. has, in addition to paying its own direct expenses, paid a proportionate share of all administrative and other overhead expenses common to the group on the basis of an adjusting formula having regard to activity and other relevant factors. Common expenses referred to include, within restriction as to the generality thereof, salaries of directors, officers and staff, general office expenses and the cost of operating a geological and drafting department and a special projects department. This procedure, while increasing administrative and general expense as indicated in the financial statements, has resulted in increased efficiency and has enabled the Company to participate in a more active and diversified exploration and development program in co-operation with associated companies.

FINANCIAL

It will be noted from the statement of source and application of funds which is included in the financial statements accompanying this report that cash expenditures during the year exceeded revenues by the sum of \$117,958, thereby reducing working capital to \$129,839 at the year end. However, in this regard cognizance should be taken of the Company's investment in 1,068,854 shares, equal to approximately 19% of the issued capital of Mill City Petroleum Limited, which had a quoted market value at the date of the balance sheet of \$1,817,052 as compared to \$356,962 being the cost of this investment.

During the year under review the Company increased its exploration and development activity in co-operation with associated companies and expended the total sum of \$172,308 for this purpose comprising:

Drilling costs of non-productive wells	\$ 80,511
Geological and geophysical survey expenditures	65,913
Acquisition of petroleum and natural gas and mining interests ...	12,417
Lease rentals and other carrying charges	3,719
Production equipment	9,748
Total	<u>\$172,308</u>

as compared to the sum of \$26,990 expended during the preceding year.

Non-productive well expenditures during the current year covered varying interests in one well in Manitoba and three wells in Alberta which were abandoned. The Company did not participate in the drilling of any wells in the search for petroleum and natural gas during the preceding year.

EXPLORATION AND DEVELOPMENT

ALBERTA

In the Cadotte, Bistcho Lake and Northwest Rainbow areas of the Province of Alberta, Royal Canadian Ventures and associates negotiated five farmout agreements from British American Oil Company Limited covering approximately 155,000 acres pursuant to the terms of which two wells, namely, Continental RCV Bistcho 7-23-124-4-6 and Mill City et al Cadotte 7-16-85-17-5 were drilled and abandoned at a total cost of \$294,000 (\$66,193 net to R.C.V.) and a seismograph program was carried out at a total cost of \$154,640 (\$38,660 net to R.C.V.)

The preliminary seismic survey completed on Petroleum and Natural Gas Reservation No. 553, containing 52,050 acres in the Northwest Rainbow area, indicated that further and more detailed seismic exploration was required before a drilling location could be selected. Subsequent to the year end Royal Canadian Ventures and its associates farmed out their interest to Pan American Petroleum Corporation who have performed substantial additional seismic exploration and by so doing, earned an option to select a drilling location. Pan American has exercised its option and will pay Royal Canadian Ventures and associates a cash consideration and a gross overriding royalty on lands earned by the drilling of the test well. Royal Canadian Ventures has a 25% interest in this arrangement and the remaining interest is held by New Continental Oil Company of Canada Limited, Dynamic Petroleum Products Ltd. and Crusade Petroleum Corporation Limited.

In the South Rainbow area the Company and associates acquired a petroleum and natural gas lease comprising 320 acres at a Crown sale held in October, 1966 for a bonus consideration of \$37,232. The Company has a 20% undivided interest in this property.

SASKATCHEWAN

Subsequent to the year end the Company, in co-operation with Mill City Petroleums Limited, Masai Minerals Limited and Rudichuk Consulting Ltd., negotiated a series of farmout agreements covering lands in the South Saskatchewan area, pursuant to the terms of which eight wells have been drilled to depths averaging approximately 4,000 feet, resulting in six dry holes and two successful oil wells. One additional well is drilling at the date of this report. The Company's investment in this nine well program will aggregate the sum of approximately \$41,000 and it will have a 16-2/3% undivided interest in the earned lands. This exploration program has yielded valuable geological information and in the Willmar area in particular where two oil wells have been placed on production it is contemplated that further proven and potential locations will be drilled.

SASKATCHEWAN URANIUM SURVEY

Royal Canadian Ventures and associated companies have completed an extensive preliminary uranium exploration program in the Athabasca sandstone area of northern Saskatchewan. Approximately 15,000 linear miles of traverses were flown using aircraft owned by an associated company which was equipped with the latest and most modern uranium detection equipment. Following completion of the preliminary survey five mineral exploration permits totalling 960,000 acres have been acquired and our future exploration program will be designed to evaluate these permits for uranium and other

mineral deposits. The Province of Saskatchewan is paying a share of our exploration expenditures under their Precambrian incentive program. (Note: More detailed particulars concerning this program are contained in a separate report dated December 15, 1967 which was mailed to all shareholders.)

BRITISH COLUMBIA MINING OPERATIONS

At the year end the Company had a one-seventh (1/7th) interest in 332 mining claims and five mineral leases in the interior of British Columbia and is participating with New Continental Oil Company of Canada Limited, Mill City Petroleum Limited and other associated companies in geophysical and geochemical surveys which are in various stages of completion. Additional properties are being staked from time to time as a result of prospecting and other forms of field exploration. This program is operated for our group of companies by Royal Canadian Ventures Ltd. through an exploration office established in Kamloops, B.C. A map showing the jointly held properties in British Columbia is included as part of this report.

The Company's wholly owned Highland Valley properties are particularly significant and this operation has been covered in greater detail in a special report on mining dated February 8, 1968 which was mailed to all shareholders of record.

On Vancouver Island the Company has a one-seventh (1/7th) interest in approximately 161,000 acres of mineral lands which were acquired pursuant to an agreement entered into with Canadian Pacific Oil & Gas Limited. Line cutting and a geochemical survey will be initiated shortly over these properties for purposes of a preliminary evaluation.

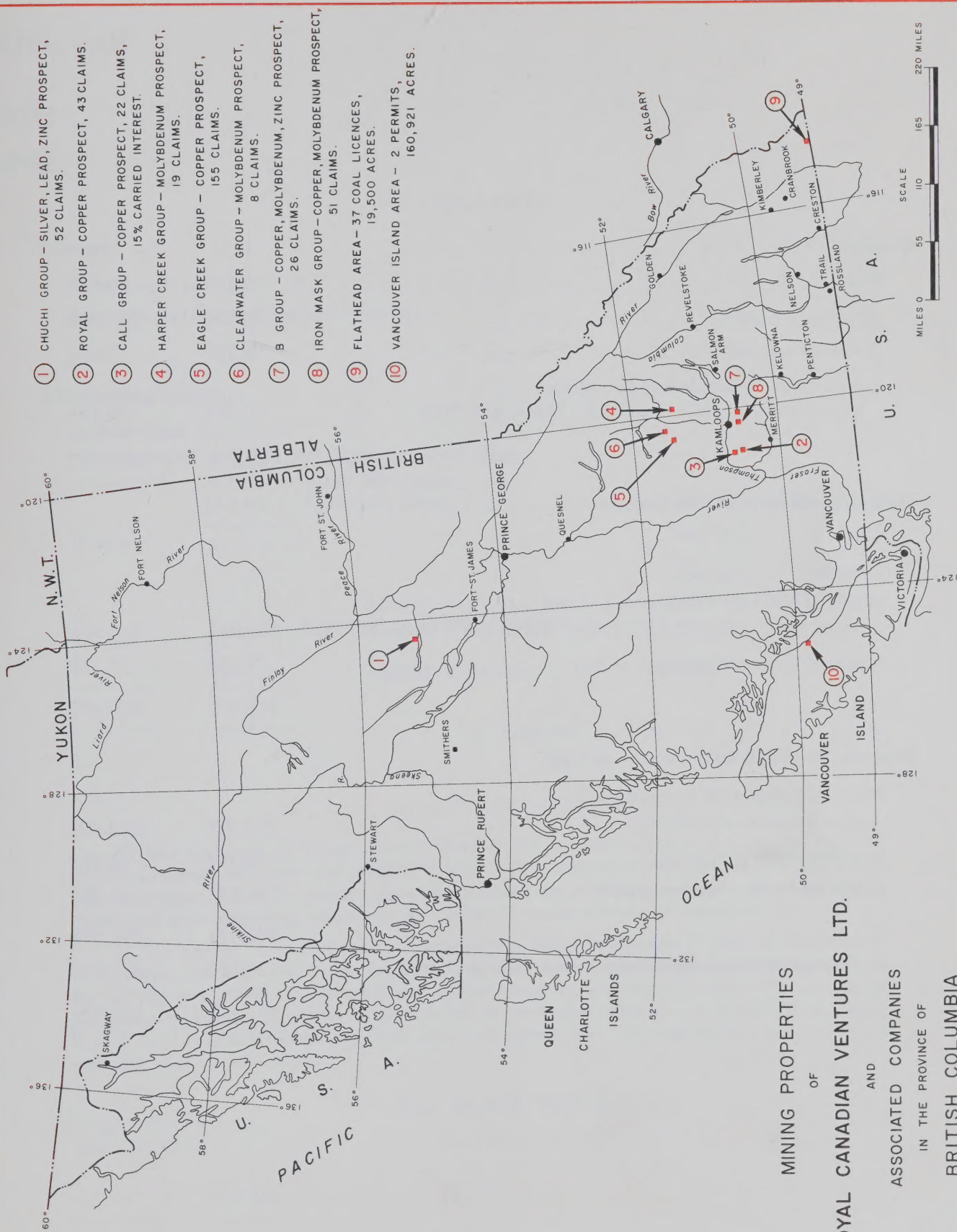
In the Flathead area of the Province of British Columbia the Company and Mill City Petroleum Limited acquired during the year thirty-seven (37) coal licenses from the Crown comprising 19,594 gross acres. The Company has a 10% undivided interest in these properties.

GENERAL COMMENTS

During the year the Company increased substantially its exploration program in the search for petroleum and natural gas reserves and as a result of the establishment of a special projects department by the Company and its associates has intensified the search for base metals and coal deposits. It is planned to continue our diversified efforts during the coming year in co-operation with associated companies to an extent consistent with our financial resources.

Respectfully submitted
on behalf of the Board of Directors
ARCHIE P. NEWALL Jr. President

Calgary, Alberta
February 19, 1968



- ① CHUCHI GROUP - SILVER, LEAD, ZINC PROSPECT, 52 CLAIMS.
- ② ROYAL GROUP - COPPER PROSPECT, 43 CLAIMS.
- ③ CALL GROUP - COPPER PROSPECT, 22 CLAIMS, 15% CARRIED INTEREST.
- ④ HARPER CREEK GROUP - MOLYBDENUM PROSPECT, 19 CLAIMS.
- ⑤ EAGLE CREEK GROUP - COPPER PROSPECT, 155 CLAIMS.
- ⑥ CLEARWATER GROUP - MOLYBDENUM PROSPECT, 8 CLAIMS.
- ⑦ B GROUP - COPPER, MOLYBDENUM, ZINC PROSPECT, 26 CLAIMS.
- ⑧ IRON MASK GROUP - COPPER, MOLYBDENUM PROSPECT, 51 CLAIMS.
- ⑨ FLATHEAD AREA - 37 COAL LICENCES, 19,500 ACRES.
- ⑩ VANCOUVER ISLAND AREA - 2 PERMITS, 160,921 ACRES.

MINING PROPERTIES
OF
ROYAL CANADIAN VENTURES LTD.
AND
ASSOCIATED COMPANIES
IN THE PROVINCE OF
BRITISH COLUMBIA

ASSETS

Current:	1967	1966*
Cash	\$ 14,265	\$ 15,575
Short term deposits	80,000	200,000
Accounts receivable	18,386	7,354
Government of Canada bonds — at cost (market value 1967 — \$28,613; 1966 — \$30,275)	30,494	30,494
	<u>143,145</u>	<u>253,423</u>
Operating and Performance Deposit	<u>7,143</u>	<u>—</u>
Investments:		
Shares of Mill City Petroleums Limited — at cost (market value 1967 — \$1,817,052; 1966 — \$2,436,987) (Note 2)	356,962	356,962
Shares of other companies — at cost	<u>7,335</u>	<u>7,335</u>
	<u>364,297</u>	<u>364,297</u>
Property, Plant and Equipment — At Cost:		
Producing properties including well development expenditures	313,426	313,426
Non-producing properties	21,393	14,218
Production and other equipment	<u>74,202</u>	<u>64,454</u>
	<u>409,021</u>	<u>392,098</u>
Less accumulated depreciation and depletion (Note 1)	<u>226,610</u>	<u>214,617</u>
	<u>182,411</u>	<u>177,481</u>
	<u>\$ 696,996</u>	<u>\$ 795,201</u>

*1966 reclassified for

See accoma

Ventures Ltd.

SHEET

1967 and 1966

LIABILITIES

Current:	1967	1966*
Bank loan — secured	\$ 100	\$ 100
Accounts payable and accrued liabilities	13,206	5,526
	<u>13,306</u>	<u>5,626</u>
Shareholders' Equity:		
Capital (Note 3):		
Authorized — 5,000,000 shares of no par value		
Issued — 1967 — 4,267,389 shares;		
1966 — 4,200,723 shares	1,289,330	1,272,664
Deficit	605,640	483,089
	<u>683,690</u>	<u>789,575</u>

Approved on behalf of the Board:

ARCHIE P. NEWALL Jr.

Director.

R. C. BROWN

Director.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Royal Canadian Ventures Ltd. as of September 30, 1967 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at September 30, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in method of calculating depreciation on production equipment (as more fully set out in Note 1 to the financial statements), with which we concur, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Calgary, Alberta
January 9, 1968

Chartered Accountants

\$ 696,996 \$ 795,201

comparative purposes.

paying notes.

ROYAL CANADIAN VENTURES LTD.

Statement of Income and Deficit

For the years ended September 30, 1967 and 1966

REVENUE:	1967	1966*
Crude oil and natural gas sales less royalties	\$ 89,990	\$ 92,866
Less production expenses	26,654	23,185
	63,336	69,681
Royalties	942	859
Interest	8,095	3,578
	72,373	74,118
EXPENSE:		
Administrative and general	29,046	22,318
Exploratory costs, lease rentals and dry holes costs	150,143	17,232
	179,189	39,550
Cash loss (earnings) from operations	106,816	(34,568)
Add:		
Petroleum and natural gas interests and mining claims abandoned	5,125	3,260
Depreciation and depletion (Note 1)	11,993	15,722
Gain on sale of fixed assets	(1,383)	(1,067)
	15,735	17,915
Net loss (profit) from operations	122,551	(16,653)
Gain on sale of investments	—	(124,084)
Prior years' development costs on mining claims written off	—	34,180
Net loss (profit) for the year	122,551	(106,557)
Deficit at beginning of year	483,089	589,646
Deficit at end of year	\$ 605,640	\$ 483,089

*1966 reclassified for comparative purposes.
See accompanying notes

ROYAL CANADIAN VENTURES LTD.

Statement of Source and Application of Funds

For the years ended September 30, 1967 and 1966

SOURCE OF FUNDS:	1967	1966*
Issue of treasury shares	\$ 16,666	\$ 160,000
Sale of investments	—	156,593
Sale of equipment	—	3,664
Sale of petroleum and natural gas interest	1,500	—
	<u>18,166</u>	<u>320,257</u>
APPLICATION OF FUNDS:		
Cash loss (earnings) from operations	106,816	(34,568)
Petroleum, natural gas and mining interests	12,417	—
Production and other equipment	9,748	9,758
Operating and performance deposit	7,143	—
	<u>136,124</u>	<u>(24,810)</u>
Decrease (increase) in working capital	117,958	(345,067)
Working capital at beginning of year	247,797	(97,270)
Working capital at end of year	<u>\$ 129,839</u>	<u>\$ 247,797</u>

*1966 reclassified for comparative purposes.

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

September 30, 1967

1. ACCOUNTING POLICY:

The Company's policy is to capitalize the acquisition cost of petroleum and natural gas interests together with drilling and development costs in connection with wells capable of production and to amortize such cost on a unit of production basis. Lease rentals, cost of dry holes drilled and exploration expenses are charged against income as incurred. The acquisition costs of mining claims are also capitalized and exploration expenses in connection therewith are charged against income when incurred.

In prior years, depreciation of production equipment was calculated on a straight-line basis. During the current year, depreciation was calculated on a unit of production basis. Had the Company accounted for depreciation in the current year on the same basis as in prior years, current charges to earnings would have been approximately \$4,500.00 more, with the reported loss increased by a similar amount.

2. MARKET VALUE OF INVESTMENTS:

Due to the number of shares involved in the investment in Mill City Petroleums Limited, the quoted market value is not necessarily indicative of the amount that could be realized if the shares were to be sold.

3. EMPLOYEES' STOCK OPTIONS:

During the year, employees' stock options for 66,666 shares were exercised at the option price of twenty-five cents cash per share. Subsequent to September 30, 1967, employees' stock options for 133,334 shares were exercised at the option price of twenty-five cents cash per share.

ROYAL CANADIAN VENTURES LTD.

ACREAGE HOLDINGS AT SEPTEMBER 30, 1967

<u>EXPLORATORY ACREAGE</u>		<u>Gross Acres</u>	<u>Net Acres</u>	
Alberta		6,237	784	
Saskatchewan		158	158	
				<u>WORKING INTEREST</u>
				<u>%</u>
<u>PRODUCING PROPERTIES</u>				
ALBERTA				
Unitized				
Leduc D-2B Unit				.89106
Non-Unitized				
Clive		160	80	
Hussar		7,670	684	
<u>ROYALTIES</u>				
1. 2½% gross overriding royalty on 960 acres at Clive, Alberta.				
2. 5% gross overriding royalty on oil on 160 acres in the Cessford Gas Unit.				
<u>MINING</u>		<u>Gross</u>	<u>Net</u>	<u>WORKING INTEREST</u>
				<u>%</u>
Vancouver Island Permits	160,921 acres	22,989 acres		14.2857
B.C. — Mineral Claims	332 claims			14.2857
— Mineral Leases	5 leases			14.2857
<u>COAL LICENSES</u>				
Flathead, B.C.	19,594	1,959		10.0000

DYNAMIC PETROLEUM PRODUCTS LTD.
 AUTHORIZED CAPITAL: 10,000,000 shares of no par value
 ISSUED: 6,921,632, of which

39% { 425,000 are owned by Mill City Petroleums Limited
 375,000 are owned by New Continental Oil Company of Canada Limited
 *1,872,824 are owned by Dynamic Voting Trust and Directors

TOTAL NUMBER OF SHAREHOLDERS — 5,380
 DIRECTORS: Frank Brown Archibald Park Newall Jr.
 Robert Clive Brown Roger D. Paugh

ROYAL CANADIAN VENTURES LTD.
 AUTHORIZED CAPITAL — 5,000,000 shares of no par value
 ISSUED: 4,400,723, of which

57% { 1,700,000 are owned by Dynamic Petroleum Products Ltd.
 792,000 are owned by Mill City Petroleums Limited

TOTAL NUMBER OF SHAREHOLDERS — 1,370
 DIRECTORS: Archibald Park Newall Jr. Robert Clive Brown
 Frank Brown

MILL CITY PETROLEUMS LIMITED
 AUTHORIZED CAPITAL — 6,000,000 shares of no par value
 ISSUED: 5,695,334, of which

41% { 1,068,854 shares are owned by Royal Canadian Ventures Ltd.
 1,193,939 shares are owned by Dynamic Petroleum Products Ltd.
 75,000 shares are owned by Consolidated East Crest Oil Company Limited

TOTAL NUMBER OF SHAREHOLDERS — 4,548
 DIRECTORS: Roger D. Paugh
 Frank Brown Archibald Park Newall Jr.
 Robert Clive Brown Archibald Park Newall Sr.

PERMO GAS AND OIL LIMITED
 AUTHORIZED CAPITAL — 20,000,000 shares of no par value
 ISSUED: 13,127,276, of which

6,096,694 shares or 46% are owned by Mill City Petroleums Limited

TOTAL NUMBER OF SHAREHOLDERS — 3,800
 DIRECTORS: Robert Clive Brown
 Roger D. Paugh Archibald Park Newall Jr.
 Eric F. Lowick Frank Brown

CONSOLIDATED EAST CREST OIL COMPANY LIMITED
 AUTHORIZED CAPITAL — 5,000,000 shares of no par value
 ISSUED: 1,599,174, of which

1,271,338 shares or 79% are owned by Permo Gas & Oil Limited

TOTAL NUMBER OF SHAREHOLDERS — 1,468
 DIRECTORS: Robert Clive Brown
 Roger D. Paugh Archibald Park Newall Jr.
 Eric F. Lowick Frank Brown

NEW CONTINENTAL OIL COMPANY OF CANADA LIMITED
 AUTHORIZED CAPITAL: 10,000,000 shares of no par value
 ISSUED: 6,040,000, of which

3,452,433 shares or 57% are owned by Permo Gas & Oil Limited

TOTAL NUMBER OF SHAREHOLDERS — 2,577
 DIRECTORS: Robert Clive Brown Archibald Park Newall Jr.
 Roger D. Paugh Frank Brown
 Eric F. Lowick

*Principal members of the Dynamic Voting Trust who are also Directors of the Company, and their respective holdings of shares of Dynamic as of December 31, 1967, are as follows:

Frank Brown	529,597 shares
Robert Clive Brown	482,272 shares
Archibald Park Newall Jr.	475,422 shares

(This chart effective as of December 31, 1967)

